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June 14, 2001

Mr. James Connelly, Chairman
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: Competitive Markets

Dear Chairman Connelly:

Enermetrix appreciated the opportunity to participate in the Department's technical conference on May 31st in Boston. We thank the Department for arranging this meeting and for inviting our firm to participate.

We will be brief in our comments and will focus on areas where we believe that Enermetrix has particular expertise and market knowledge. We will start with a brief introduction to our firm.

Enermetrix

Enermetrix is a software technology company and an energy markets facilitator. Our firm developed and operates the widely used Enermetrix Exchange, an electronic, Internet based marketplace for electricity and natural gas transactions that is used currently by market participants in Massachusetts and 26 other states. The Enermetrix Exchange allows retail users of energy to "post" their energy requirements on the Exchange, where suppliers review and bid to supply these requirements. The Exchange is a highly efficient, easily accessible, confidential, and low cost means of transmitting information and completing transactions between buyers and sellers of energy.

Bob Schoenberger, the CEO of Unitil, and Scott Helm, President of American Power Net (APN) spoke at the conference of their use of the Enermetrix Exchange as a tool to facilitate efficient electricity and natural gas transactions for their retail customers. On the other "side" of the Exchange, many of the suppliers who were present at the conference are active commodity providers who are bidding to supply load requirements as posted on the Enermetrix Exchange.

The Enermetrix Exchange is operating currently in more than 85 local distribution company service territories across the United States. It has been operational since 1998 and more than 7000 transactions have been completed. Our firm is a private company headquartered in Maynard, Massachusetts.

“Restarting” the Massachusetts Electricity Market

It is obvious that current market activity in Massachusetts is well below that desired and expected. We suggest three basic reasons for this:

- Retail market prices have been above regulated default prices
- Limited information flows and high transaction costs reduce supplier participation and minimize customer savings, particularly for smaller customers
- Inertia – many smaller customers prefer the comfort and simplicity of doing nothing as long as nothing is required

For the sake of brevity, we will not take the time to expand on these issues in this letter. Suffice it to say that any solution must address all of these issues if the market is to be viable for both larger and smaller customers.

We believe that the large end-user C&I market will be viable in Massachusetts provided that retail market prices offer savings over regulated default prices. In one sense, electricity “choice” is alive and well in Massachusetts – end-users have chosen to “come back” to default service because it is the low cost alternative. Large users have a strong economic incentive to utilize the lowest cost supplier, and the problems of transaction costs and inertia are not material in this segment given the large dollars involved.

However, it is appropriate to take strong measures to “jump start” the large C&I market. Improving the availability of customer information to suppliers and brokers must occur to allow these companies to effectively market to potential customers. As is discussed below, increasing the use of technology and additional utility involvement are steps that we believe are necessary and should be encouraged by the Commission.

The market for mid-size end-users down to residential customers will require more intensive efforts in the short term. Price signals alone will be insufficient to energize the market. While appropriate price differentials are an important start, high transaction costs, and end-user inertia will limit the number of suppliers in this market segment and limit switching to competitive suppliers.

Recommendations

- Increasing Use of Technology - Technology is available now from various vendors to streamline the energy transaction process. On line, web based systems are available, like the Enermetrix Exchange, to automate information flow between end-user and suppliers, and to electronically complete energy transactions for all classes of customers.

For example, it appears that the “Matchmaker” program of NSTAR could be handled easily and electronically on the Enermetrix Exchange. As proposed, the “Matchmaker” program appears to be somewhat cumbersome, slow, and

unnecessarily manual. The technology exists to make customer load data electronically available to brokers and suppliers. Confidentiality could be protected using a credit scoring system although we do not support NSTAR's view that the identity and rate class data of customers should not be released. We don't suggest that the Enermetrix Exchange is the only alternative available here, but it is clearly one that could automate the process.

We believe that the MDTE should encourage the utilities in the state to develop an electronic process to exchange information between end users, brokers, and suppliers. No party would be required to utilize this process, but we believe that an effective process would be used by the majority of medium and smaller size users, given their lack of alternatives. An electronic network operating between buyers, intermediaries, and sellers offers faster, broader information flow and communication while driving down transaction costs.

The Enermetrix Exchange is an excellent vehicle for the utilities to use as the electronic backbone for a statewide solution. We will continue to talk to each of the four distribution companies on an individual basis about this type of solution and we encourage the DTE to be supportive of this type of effort in Massachusetts.

Utility Participation in Advising/Assisting Smaller Users It is important to recognize that the utilities can be important "facilitators" of market choice without actually being suppliers. The trust that utilities have built with smaller customers over the years along with their expertise makes them ideally suited to assist customers in the deregulated marketplace.

Smaller customers are often bewildered by the choices, lack expertise in energy markets, and are too small to justify significant investment in time and effort by the competitive suppliers. They will not switch easily or quickly, even if the savings through switching is large.

Moving Forward

Utilities can and should assist customers, as follows:

- Using their customer service representatives, account executives, call center operations, marketing and promotion capabilities, etc., utilities should aggressively work with end users to prepare them for the competitive market and seek commitments from customers to participate in the competitive market. The utilities should inform customers not only of available suppliers, but of intermediaries who can assist them understand the market and help them find the best alternatives. During this start up phase, where few if any alternatives exist for smaller customers, utility involvement is essential to get the market started.

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- Utilities should be allowed to recover all or a portion of their costs for this service through default rates or another mechanism. Once the market develops more fully, this involvement should be phased out.

We strongly believe that technology and the utilities must play a much larger role in the energy transaction process, especially for medium and smaller size end-users. We will continue to discuss our views with the utilities but we recommend that the Department provide incentives and cost recovery mechanisms to insure that all customers can actively participate in the market.

We appreciate the opportunity to present our views. Please feel free to respond to me directly at 978-823-1155 if you have any questions or comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. Frank Russell". The signature is written in dark ink and is positioned below the word "Sincerely,".

J. Frank Russell